

THE VALUE TIMES

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CALL FOR NOMINATIONS FOR MEMBER DIRECTORS of the IVMA

Nominations close on 7 September 2016

IVMA may have up to eight Member Directors and this year we are looking for up to four members to nominate as a Member Director to lead and manage the Institute.

Member Directors may hold office for terms of two (2) years and up to four (4) consecutive terms. Within the four-term period Member Directors may re-nominate immediately.

Pursuant to Rule 34 b) of the Constitution three (3) of the current Member Directors need to stand down at the 2016 AGM.

Consequently, Michael Ord, Roy Barton and John Arthur will be stepping down for this election period while Alan Butler, Ted Smithies, Colin Davies and John Bushell will maintain their Board positions.

The 2016 AGM is planned to be held in October 2016 and a formal notice will be issued in due course.

The Board, in accordance with the provisions of Rule 35. d) of the Constitution, now calls for nominations from eligible Members of IVMA for the vacant positions of Member Director.

You can find the details at <http://ivma.org.au/who-we-are/ivma-governance>

Valid nominations for the position of Member Director need to be lodged with the Secretary no later than close of business 7 September 2016 – see Contact addresses on the IVMA website.

Remember, *This Is Your Institute, So Please Seriously Consider Nomination!*

The joys of travelling by Train – More about the Value Triangle

Last year I made a major change to my mode of travel during business visits to Sydney – I’ve changed from taxis to trains.

I’ve been travelling to Sydney to undertake Value Management and other assignments for many years; always using taxis after landing. However, for the last year-or-so I’ve been using the trains – and enjoying it very much.

I’ve now got an Opal card (useable on all public transport in Sydney) that makes train travel easy and seamless. So what, you might ask, caused this significant change of behaviour and what has it got to do with Value Management?

I’ll deal with the second question first – ‘what has this got to do with Value Management?’ – quite a lot, actually.

Regular readers of Value Times will be aware that in the President’s article, I have been drawing attention to the Value Triangle – the essence of value – and show how we make value-for-money decisions based on the triangle.

From the Value Triangle we produce a Value Statement for use in Value Management workshops. Here’s a quick reminder of what the Value Triangle is about.

There are three factors in the triangle:

- the useful purpose(s) of the entity being considered
- the benefits expected from fulfilling that purpose and,
- the important features of the entity.

These three factors, in combination, will define the value of anything – not the “monetary value” (that is an entirely different matter), but the value. Here is the generic triangle:

So let’s start applying this Value Triangle to my travel in Sydney, commencing with my journey from the airport to the ACVM office that is located about 10 minutes’ walk away from Central Station in the city.

Referring to the below diagram, we see that each of the factors in the Value Triangle is subject to multiple perceptions. This is

because when defining the value of a particular entity, such as a proposed new hospital or new road, there will be many stakeholders who each bring their own perception of ‘useful purpose’, ‘benefits’ and ‘important features’.

In my case, however, in considering my journey from the airport to the office, there is only one stakeholder and only one perception to be considered and that is mine. When doing Value Management on major projects, we *never* experience the case where there is only one perception: there are always multiple stakeholders. However, in those situations where there is only one customer, then it is appropriate to produce a Value Triangle based purely on that one person’s perceptions.

In working up the Value Triangle (leading to a Value Statement), we commence by coming to agreement on the primary purpose of the entity being considered. Here, the entity is some means of transporting me from the airport to the city.

Now it makes no difference at all about the means of transport; the *primary purpose* is to get me from A to B (airport to the city). Fulfilling this primary purpose will enable me to get to my venue and do my work (benefits), and there are important features of the transport such as timeliness, frequency, ease of access, regularity and reliability.

The Value Statement that emerges from completing the Value Triangle will contain all of these points.

For the most part, in this particular exercise, both options being considered (taxis or trains) will perform at reasonably equal levels against the primary purpose and the benefits (as defined above).

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Today’s Decisions – Tomorrow’s Consequences What’s Happened To The Value?

“We’ll increase the number of police...”

Such promises are made at practically every election for the past couple of decades. I could add “more teachers”, “more doctors and nurses”, “a computer for every child at school” and so on.

But how do these sorts of decisions address the fundamental value and value-for-money considerations that you’d expect to be an important part of such decisions?

Do they consider the longer-term consequences on value? In particular, what other values become compromised or indeed enhanced? How are such things even defined?

This issue goes beyond a simple view that “they are only really thinking short-term”. And please don’t think this is limited to the public sector. I’ll get to some examples of private sector thinking as well – in a later article. But first I’ll stick with “more police” to demonstrate how some decisions generate multiple consequences to value and value-for-money.

So the government goes ahead and recruits more police, that starts with putting them through the academy so they are well trained to commence duties.

The extra police need somewhere to work – so we need more police stations. They need vehicles to respond to incidents and do their follow-up interviews etc. So we’ll need to buy more cars for them as well.

So we’ve already locked-in some infrastructure and operational commitments just by deciding to employ more police.

Well, of course, the extra police are successful in arresting more people –

that’s what you’ve employed them to do. These additional people who have been charged need to be brought to justice. That means more appearances before magistrates and judges.

But to get there, they must have legal representation and also more prosecutors – so the Director of Public Prosecutions needs more staff and most likely also needs more offices and support facilities.

Some extra capacity in jail cells attached to police stations would also be needed. They have to be fed and their health maintained, including access for visitors and legal representatives. So a secondary level of impacts is becoming evident, but usually not until a couple of years later.

The successful arrest and presentation of suspects before the courts could mean the need to appoint more magistrates and judges to deal with the increased number of cases, which in turn could mean the need for additional court rooms and related holding cells for the suspects.

So we now have a third series of impacts. But wait – there’s more...

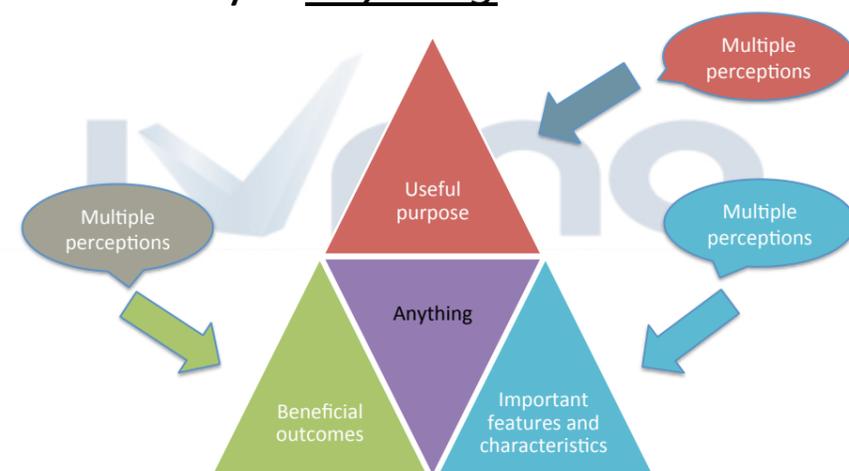
Now the courts are sentencing more convicted felons to prison, the prisons become full and overcrowded so more prisons need to be built and operated. So we know have a 4th series of impacts.

None of which were highlighted, mentioned, scoped or costed with the promise to “increase the number of police”.

I could go on about the other spin-off implications for social support and related health services for the families of these offenders and suspects. I could differentiate the additional remand capacity that is needed as the courts cases gradually

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Why is anything of value?



Do they consider the longer-term consequences on value

The joys of travelling by Train – More about the Value Triangle

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It's in the important features that we begin to see significant differences emerging.

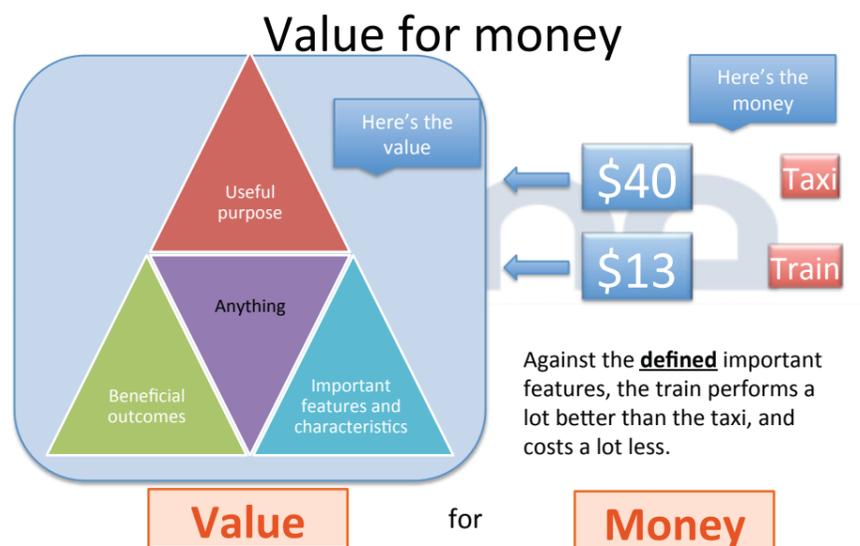
When it comes to timeliness, frequency, regularity and reliability, the trains have it over taxis. I have waited in long 'snake-line' queues moving very slowly at the airport, surrounded by business travellers: many of whom are on their mobile phones calling to apologise for being late on account of no taxis.

After leaving the airport in a taxi, there is no telling what the traffic situation will be like. Sometimes you get a clear run into the city and other times you might be stuck in traffic for a long time. So there's a lot of uncertainty involved.

So on those factors alone, there is a case to be made that the train is of better value than the taxi – as defined in the Value Statement. I am not referring to money yet – that comes later.

But it was none of those factors that caused me to change modes. No, it was something entirely different, but certainly an important factor.

My decision to change transport modes came about in keeping with a major change to diet and exercise. My frequent trips to Sydney involved sitting in a taxi or self-drive from my home to the airport, sitting on the plane, a short walk from the plane to the taxi stand at Sydney airport, sitting in a taxi and then going straight into the office or meeting and sitting down again. Virtually no exercise involved at all and a recipe for major health problems. By contrast, the train journey offers a nice, brisk walk from the plane to the airport station, a 15 minute journey to the city (typically standing), up and down steps and then a good walk to the office (or other venue).



This all adds a few thousand walking steps to the day's activity (I aim for 10,000 such steps each day).

So back to our Value Triangle and the resulting Value Statement: together, they define the value *to me* of the means of transport. Once I add in an important feature, namely 'enable exercise', then the picture changes considerably.

Having now defined where the value lies from my perspective, and since this is purely a personal choice, I can now turn my attention to value-for-money. Which option, the train or the taxi, will give me better value-for-money?

The comparative costs of the journey are: Train – \$13.18, Taxi about \$40.00

Now taking the Value Statement as the basis for comparison, I can see that the train provides more value than the taxi on account of the defined important features (timeliness, frequency, regularity and

reliability plus, of course, 'enable exercise'). The train also costs approximately one third of the taxi journey.

I conclude that the train offers *much better* value-for-money than the taxi. The term "much better" is the measure of value for money. It's what is referred to as an 'ordinal' measure as I have written about this elsewhere.

This is all captured in the above diagram, which is the model by which I have been explaining the concept of value-for-money in articles and in the recent videos that are posted on the IVMA's website.

There are some important lessons to learn from this. The first is to note how the important features in the Value Triangle affect value and how the addition of just one such feature (e.g. 'enable exercise') can significantly affect value.

The second important lesson is that this was a personal exercise and so I only had

to consider things that were important to me. In a normal Value Management exercise, as stated earlier, this is *never* the case, but the principle remains the same.

Time and time again we have seen situations where the entire 'value' picture changes as a result of individual stakeholders in the Value Management workshop nominating things that were important to them, that most people had been unaware of prior to the workshop.

The third important lesson is that, having established the Value Statement, we are in a position to explore alternative ways to best deliver the requirements of the Value Statement and to seek the option that delivers best value-for-money.

In the case of my train journey, other possibilities could be considered such as catching a taxi but getting out a kilometre or two before the destination and walking the rest of the way. This would satisfy the 'enable exercise' requirement.

I could overcome the uncertainty of the length of the taxi queue by pre-booking

a hire car (at considerable expense) but noting that this would still not overcome the uncertainty of traffic jams.

And so on.

It's simply a matter of capturing what's important and then exploring options.

At some point the decision-makers have to make a judgement about which option delivers best value-for-money. It's always about judgement, never about calculation (see other articles by me and the Value-for-Money video series at: ivma.org.au).

We make that judgement by comparing options and considering the extent of value provided (against the Value Statement) for the cost of each option.

In my case, with my personal set of important features, the train is a hands-down winner.

Dr Roy Barton
President, Institute of Value Management Australia (IVMA)

GovProcure 2016 Conference, Sydney 6 – 8 December

Procurement in the public sector is undergoing a transformation in which it is evolving from a 'back office' function to a strategic capability. This is helping the sector deliver more efficient and economical services and also supporting local, ethical and environmentally-friendly products and services.

This process is being driven by innovative procurement strategies, improved systems and processes and the uptake of cutting edge technology.

Dr Roy Barton, President, Institute of Value Management, Australia will be speaking at the GovProcure 2016 Conference on the subject: **Procuring Infrastructure – obtaining value for money on purpose.**

Dr Barton's talk will address:

- what 'value-for-money' really is,
- how we go about obtaining it, and
- how we know when we've got it?

In dealing with these questions he will provide recent examples from public sector infrastructure procurement in Australia and overseas.

Follow the link for more information on this [vital conference](#).

It's simply a matter of capturing what's important and then exploring options.

Today's Decisions – Tomorrow's Consequences

What's Happened To The Value?

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build-up a backlog in the justice system – people waiting much longer to get a decision – and of course their victims and families equally are in some sort of limbo for much longer periods.

We haven't even touched upon the communications and IT implications either. Nor have we spoken about timeframes and lead-times for designing and building additional infrastructure capacity.

So what are the values that these strategies are initially focussed on and how can they be defined so that the secondary, tertiary – and so on – 'value impacts' are appreciated and taken into consideration from the outset.

Well obviously I'm biased about the core methodology that should be applied. Value Management is arguably more effective at the strategy level than just being applied to the individual asset investment decisions. This is because at the strategy level you have the best opportunity to garner the broadest perspectives on the values that need to be taken into consideration.

Dr Roy Barton's article about the 'value triangle' helps in understanding the significant benefits in taking the time at the concept stage to define the value – from multiple stakeholder perspectives. The challenge is to find the mechanism to enable this to happen.

You can't consult 'everyone' but you can certainly get perspectives by asking the three simple questions that the 'value triangle' then helps to present in an easily understood way.

Some examples of the different values in the flow from the concept of "putting more police on the beat" might range across some of the following:

(Please accept these as exemplars only and not an attempt to be comprehensive but rather to simply highlight the possible breadth and different types of values in these situations.)

Primary Purposes:

- ensuring the safety of the community
- upholding and applying the law
- gathering and submitting evidence to the justice system
- discouraging crime
- preventing or reducing harm – to people and property
- helping to resolve crimes

In other words it not about having more police – it's all about what the police do for the community – why do you have the police? The purpose is clearly not about having more police – it's inevitably about creating a safer and law-abiding community that enables greater economic, social and environmental development.

Defining these 'higher order' values opens the possibilities to many other different solutions or indeed, as is more often the case, a mix of solutions : not a singular dimension but something that addresses the right values for the community.

Just asking for 'more police' as a solution, without better definition of the values from a multi-stakeholder perspective, will inevitably mean many other important community values are compromised.



Defining these 'higher order' values opens the possibilities to many other different solutions

Benefits:

- some crimes maybe prevented
- criminals may be apprehended quicker
- more dangerous people are apprehended and detained
- more people get arrested for minor offences

But there could be some compromised values such as:

- more people being locked up for longer periods before their matters are determined by a court – especially those who are released by the court, without conviction
- an increased prison population may increase the risk of harm within prisons
- more families might become more dependent on welfare because they have lost their only income
- more families may break-up putting more women and children at risk of harm
- taxes have to be increased to meet the extra costs
- government might not be able to fund other priorities (because funds are having to be diverted to the justice portfolio)

And I haven't even got to the important features yet!

Important Features:

- That classic expression "justice delayed is justice denied" – might be alternatively expressed as dispensing justice in a timely way so matters are resolved as early as practicable
- educating the community in how to support the police – helping to make them more effective at both prevention, detection and crime investigation

- maintaining capacity to fund other equally important community initiatives and services
- putting more effort into crime prevention in the first place
- keeping people out of prisons who don't need to be there
- defining and managing the risks for people being considered for bail

These sorts of things need to be defined from the perspectives of say: the police themselves, the Director of Public Prosecutions, the courts themselves (magistrates and judges), the insurance industry, victims of crime, the health system, the social welfare system, job placement services, prison operators – prisoner management, rehabilitation services and the parole board, legal practitioners and so on...

Now, as I mentioned earlier, it's not feasible to consult them all but there are a number of peak bodies from which representation and inputs to defining the values are readily feasible. The effort is definitely worth it.

In New South Wales there is a huge and increased expenditure program rolling-out over the next few years to create additional prison capacity – which has impacts on other potential and equally important government programs.

Failing to define values will always compromise others – and that may not always be the right way to go!

Mark Neasbey
Chair, Education Committee, IVMA

Value Learnings from a Small Project

Sometimes small projects can provide useful learning experiences for projects of all sizes. One such project was an estimated \$8 million upgrade to a chemical processing plant producing plastic pellets for use by customers in injection molding machines.

What was learned from this Value Management study included:

- Seemingly simple projects can be more complex than first realised
- If it doesn't seem right, it probably isn't right
- Don't let the 'urgent' mask the 'real' issues
- The need to consult widely before committing expenditure

The problem identified by the plastics manufacturing plant was that air entrapped in the plastic pellets was being released too slowly. The result was that when the pellets were packaged into containers and delivered to customers some containers, still containing entrapped air, had exploded.

Fortunately no-one had been injured but it was an issue that needed to be addressed and resolved without delay.

The engineering consultant had developed a design that he and the client had agreed met the client's brief. The solution was to add two more storage silos to permit the pellets to be stored on the manufacturer's site for a longer time before being loaded into containers and delivered to customers.

Space on the site was limited so the design placed the silos some distance from the manufacturing area – and the existing silos – therefore requiring an overhead gantry to support a pipe through which the pellets were blown into the new storage silos.

However, the engineering consultant questioned whether they really had achieved the right solution: it didn't seem right! The consultant and I held a meeting with the client (who our company had worked for before) and we decided that it was potentially worthwhile to conduct a Value Management study.

The study was held with just eight participants, including the engineering consultant, and company representatives including the Operations Manager, Technology Specialist, operators and the Marketing Manager.

In preparation for the study, a small group had developed a 'function diagram' that described, in simple 'verb-noun' terms, the functions being performed in the plastics pellet manufacturing plant. This eliminated technical jargon and enabled all study participants to have a common understanding of the subject of the study.

This Function Diagram elicited a further issue in the plant that also had an impact on customers but that had no safety implications. The pellets produced by the plant were 'stringy', i.e. rather than being smooth and rounded the pellets had 'tails' of plastic that meant that not all of the plastic material would be fed into the molding machines. This in turn meant some waste would remain outside the machines creating avoidable waste in the customers' molding plants.

The Value Management study group developed and evaluated eight alternative methods of increasing the storage available for the pellets or providing 'breathable' packaging; all of which had the potential to be implemented relatively quickly.

The real benefit of the Value Management process was however demonstrated when the Marketing Manager realised that if two very similar products could be combined into a single product, there would be sufficient storage capacity in the existing silos for all products to remain there for a longer time before final packing and delivery.

Two phone calls later and this was the accepted solution to address the safety issue, which was implemented immediately. Cost \$0 in lieu of \$8 million.

This left the issue of product quality to be addressed.

Poor product quality resulted from aged connecting tubes through which the plastic pellets are blown from one location to another. Over time, the edges of metal plates used in the pipes had become rough, damaging the fast-moving pellets resulting in their 'stringiness'.

The group concluded that, to restore the required quality of the plastics product, all the tubes should be replaced. The reduction in the number of products produced from five to four resulted in the potential to simplify the new tube system.

The new tube system was constructed at the next plant shutdown for maintenance – and within the already scheduled maintenance window – for a total capital cost of \$5 million. The simplified plant also resulted in operating cost savings thus increasing plant profitability.

**John Bushell, Director, IVMA
Chair, Publications and Events
Committee, IVMA**